



Individual Development Accounts (IDAs)

Summary

Legislation to allow low-income individuals the opportunity to invest in matched savings accounts has been introduced by State Representatives Tupac Hunter (D-Detroit), Dave Robertson (R-Grand Blanc) and Kevin Green (R-Wyoming). The Senate has introduced similar legislation. Senate Bills 640-642 are sponsored by Senators Buzz Thomas (D-Detroit), Bill Hardiman (R-Grand Rapids) and Mike Bishop (R-Rochester).

HB 5027 (SB 640) creates the *Individual or Family Development Account Program Act* under which eligible participants and families could establish accounts to be used towards: 1) the first time purchase of a primary residence; 2) continuing secondary education; or 3) starting a small business. Eligible participants are defined as individuals or families who are residents of Michigan whom are at least 17 years in age and whose household income falls within 200% of the federal poverty guidelines.

The Michigan State Housing Development Authority (MSHDA) of the Department of Labor and Economic Growth (D-LEG) will establish policies and procedures relative to the IDA program and would authorize Fiduciary Organizations and Program Sites to administer these accounts on a not-for-profit basis. MSHDA would also establish and administer one or more reserve funds to provide matching funds for account holders and to accept matching contributions from outside sources as well. Lastly, the IDA program participant is required to complete a course in financial education prior to making any withdrawals from their account.

HB 5021 (SB 641) would amend the *Single Business Tax Act* to allow an entity subject to the Single Business Tax (SBT) to claim a credit equal to 75% of the contribution made to a reserve fund of a program site or fiduciary organization. A qualified financial institution may also claim an initial credit of \$500 against the tax imposed as well as an additional \$50 credit each tax year for the administration of IDA accounts, provided the issuance of the credit would not result in exceeding the \$1 million *-cap established in HB 5027.

HB 5022 (SB 642) would amend the *Income Tax Act* to allow an individual contributor to claim a personal income tax credit equal to 75% of the contributions made to a reserve fund of a program site or fiduciary organization, provided the issuance of the credit would not result in exceeding the \$1 million cap established in HB 5027.

Impact on Credit Unions

IDAs fit perfectly with the credit union mission of "People Helping People." Many low-income consumers presently have no established relationship with a mainstream financial institution. Account holders come to credit unions while taking financial education courses in connection with their IDA. Also, they are working full or part-time, and saving regularly in their IDA for a specific asset purchase. By holding IDAs, credit unions gain the opportunity of providing additional (affordable) financial products and services such as mortgages, business loans, and college loans, and often lead to IRAs, and other products. IDAs are not transaction accounts, but longer-term (1-4 years) savings and investment accounts.

State of Michigan Fiscal Impact

The fiscal impact is estimated to be no more than \$1 million annually based on the established annual cap outlined in the legislation.

Status

House Bills 5021, 5022 and 5027 were introduced on June 29, 2005 and referred to the House Banking and Financial Institutions Committee. Senate Bills 640-642 were introduced on June 23, 2005 and referred to the Senate Banking and Financial Institutions Committee.

MCUL Position

The MCUL strongly supports permanent enactment of IDAs and urges the Michigan Legislature to enact legislation that provides a permanent IDA program for the state of Michigan that includes a transferable tax credit for eligible entities.

For more information, please contact MCUL Director of Legislative Affairs & Grassroots Andrew Doerr at 1-800-262-6285, extension 465 (ahd@mcul.org).

The Neighborhood Partnership Fund

What We Do:

NPF Programs for Success

Support for Oregon's Community Development Corporations

Resident Services

Policy and Advocacy

Human Capital Development, Training and TA

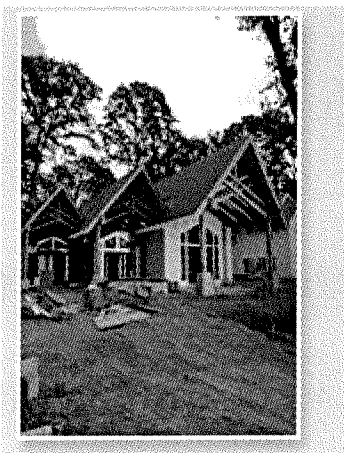
Asset Building through IDAs

About the IDA Program

Purchase an IDA Tax Credit

Impacts and Public Policy Implications

IDA Resources



Asset Building Through IDAs

Impacts and Public Policy Implications of IDAs

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[Impacts on Individuals – Success Stories »](#)

[IDAs in Other States »](#)

[Resources»](#)

Long Term Benefits of IDAs

Individual development accounts are a powerful tool because they motivate people to establish and continue a habit of saving money. By matching a participant's own savings with outside investment, IDAs help families achieve financial stability and independence. The money is combined with a curriculum of financial literacy, increasing skills in saving, investing, and building assets.

IDAs help break the cycle of poverty, moving people from a habit of living paycheck-to-paycheck to a habit of saving and building assets. Individuals who improve their employment skills through education or who gain ownership of a home or business have a greater stake in making their community a better place. In this way, IDAs are effective tools in enhancing the contribution people make to their families, to their community, and to society.

A recent Return-on-Investment Study commissioned by Multnomah County has shown that IDA programs can result in:

1. Increased revenues to the private sector from real estate transactions and increased disposable income spent in the retail sector;
2. Improved school attendance and a more stable family income;
3. Increased income tax receipts and decreased welfare payments.

The ROI study also shows an excellent return for Oregon. For every dollar invested, the public and private sectors reap \$3 in new taxes, tuition, home ownership equity, and retail purchases.



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WHAT IS AN INDIVIDUAL DEVELOPMENT ACCOUNT?

Individual Development Accounts, or IDAs, are part of an innovative matching fund program low-income Oregonians save and invest their way out of poverty. IDAs are not handouts. They are special accounts that provide a powerful incentive for low-income individuals to save money toward the purchase of permanent, productive assets. IDAs must be used exclusively for one of the following:

- Purchasing a first home
- Education or skill training
- Starting a small business

Once low-income participants have met strict program standards, they open their IDA at a local credit union. They work with program staff from a qualified social service organization to set up a savings schedule and ultimate savings goal. For every dollar a participant saves, a matching amount from the state's IDA pool goes into a separate escrow account for this individual.

When participants reach their goals, they write checks from their own accounts and matching funds sent directly to the vendor, bursar, bank or title company. Participants also receive personal financial training to learn how to build the savings habit, manage household budgets, repair their credit and learn basic investment strategies.

In order to kick-start the program, the state is offering businesses and individuals who contribute to the state's IDA pool through the Neighborhood Partnership Fund a 75% tax credit. This contribution is also deductible as a charitable donation on federal income taxes.

HOW DO IDAS HELP?

Individual development accounts are a powerful tool because they motivate people to establish and continue a habit of saving money. By matching a participant's own savings with outside investments, IDAs help families achieve financial stability and independence. The money is combined with a curriculum of financial literacy that all participants must take, increasing their skills in saving and building assets.

IDAs help break the cycle of poverty, moving people from a habit of living paycheck-to-paycheck to a habit of saving and building assets. Individuals who improve their employment skills through training or who gain ownership of a home or business have a greater stake in making their community a better place. In this way, IDAs are effective tools in enhancing the contribution people make to their community and to society.

WHO CAN QUALIFY FOR AN INDIVIDUAL DEVELOPMENT ACCOUNT?

The Oregon legislation limits the program to individuals or families earning less than 80% of the state median income.

median income and who have a net worth of less than \$20,000, minus their total debts and of

SOME QUALIFYING INCOMES (2004) FOR A FAMILY OF FOUR INCLUDE:

PORTLAND-VANCOUVER	\$54,300
EUGENE-SPRINGFIELD	\$43,450
SALEM	\$44,300
BEND/DESCHUTES COUNTY	\$46,250
MEDFORD-ASHLAND	\$41,700
CORVALLIS	\$53,900
ALBANY/ LINN COUNTY	\$41,350
JOSEPHINE COUNTY	\$38,650
DOUGLAS COUNTY	\$38,650

ARE LOW-INCOME PEOPLE ABLE TO SAVE?

Low-income people do save - even when it means less options for important goods and services. Thousands of low-income Americans have opened savings accounts at banks and credit unions throughout the country. Currently, 60% of accounts in credit unions are opened by families earning less than \$10,000 annually.

Why are people willing to make sacrifices to save? Because savings are the price of stability - a hedge against the unpredictable illness or accident that can throw a family into disarray. Also, savings are the price of hope. They offer the luxury of imagining a better future - a future that these disadvantaged families are desperately working to create.

HOW CAN I RECOMMEND A FAMILY FOR AN IDA?

Oregon is working to build IDA programs throughout the state in conjunction with local, community-based non-profit organizations. These organizations already have the tools and contacts to help low-income people learn how to save. The non-profits will market the program to their clients and communities through local meetings, "road shows", advertisements and talking to local business leaders.

The following fiduciary organizations implement IDAs throughout Oregon:

- **CASA of Oregon**

CASA has established partnerships with 15 non-profit organizations and housing authorities in the Mid Willamette Valley and Southern Oregon to work with eligible low-income Oregonians to establish individual development account programs. IDA participants will work with the organization best suited to their personal savings goal (housing, education/job training or starting a small business). The following organizations partner with CASA on IDA programs:

- Albany Partnership for Affordable Housing
- Corvallis Neighborhood Housing Services
- Farmworker Housing Development Corporation

- Housing Authority of the City of Salem
- Housing Authority of Jackson County
- Housing Authority of Yamhill County
- Lane County Micro Business
- Linn-Benton Housing Authority
- Linn County Affordable Housing
- Neighborhood Economic Development Corporation
- Polk Community Development Corporation
- Salem Community Development Corporation
- St. Vincent De Paul of Lane County
- Yamhill County Development Corporation
- West Valley Housing Authority

For more information contact Rosa Olivares at 503-537-0319 or rolivares@casaoeforegor

• **Central Oregon Community Action Agency Network (COCAAN)**

The COCAAN IDA program will provide funds to match eligible individual's savings at a up to \$3,000. The three target areas that the funds are to be used for are education, micro enterprise, or to purchase a first home. The COCAAN IDA Program will target the following populations in Crook, Deschutes, and Jefferson Counties.

- Central Oregon Regional Housing Authority (CORHA) family self-sufficiency client families, 42 of which are single head of household.
- COCAAN Head Start families: 284 families, of which 112 are single parent. All are at or below the Federal Poverty Guidelines.
- COCAAN's tenants in our housing projects: 94 units, all are at 60% or below AMI and on lease.
- Families/Individuals earning less than 80 % of the area median income.

For more information contact **Norm Chadwick** at 541-548-2380 extension 101 or normc@cocean.org.

• **Dream\$avers (Douglas Community Development Corporation)**

The Dream\$avers Individual Development Account Program is a collaborative effort of several nonprofit organizations and three financial institutions in Douglas County. The nonprofit organizations in Dream\$avers assist low-income individuals in saving and building assets through the use of IDA's. The following nonprofit organizations work with Dream\$ IDA programs: Douglas Community Development Corporation, Umpqua Community Development Corporation, Umpqua Community Action Network, Umpqua Training and Employment, The Housing Authority of Douglas County, Consumer Credit Counseling Service, Premier West Bank, Umpqua Bank and Wood Products Credit Union.

For more information contact: **The Housing Authority of Douglas County**, Roseburg 541-673-6548 extension 13.

• **Mercy Corps Northwest / Mercy Enterprise Corporation, CDFI**

Mercy Corps Northwest's IDA program is dedicated to low-income entrepreneurs and

microenterprise development in the greater Portland Metropolitan Region. As part of the program, participants are required to attend a six-week workshop series that focuses on education and business basics. Its mission is to foster and support asset accumulation by providing training, individualized case management and technical assistance for disadvantaged entrepreneurs. Mercy Corps Northwest is Mercy Corps' U.S. economic development office in five counties in Oregon: Multnomah, Washington, Clackamas, Yamhill and Columbia.

For more information, please visit their websites: www.mercyenterprise.org and www.mercycorps.org or call 503-236-1580 extension 4.

• **Umatilla Reservation Housing Authority**

The Umatilla Reservation Housing Authority (URHA) is a tribal designated housing entity of the Confederated Tribes of the Umatilla Indian Reservation located in Pendleton, Oregon. The Umatilla Saves IDA Program was developed in 2001 to begin helping tribal members locate and build tools and financial independence that focus on long-term financial solutions to prepare individuals for a 30-year mortgage. It has only been in the last decade that the Umatilla reservation has begun working on economic sustainability. This asset-building concept is new and requires a new sense of pride, employment and the ability to overcome many obstacles in order to achieve homeownership on the reservation. These state of Oregon dollars will help an additional 5 low-income families achieve home ownership through a 3:1 match rate. The program requires tribal members to save a minimum of \$60/month for 25 months totaling \$1,500. The program will match \$4,500 for a total of \$6,000 down payment at the closing of a loan. Completion of financial and homebuyer education classes required. Other restrictions apply.

For more information, please contact the **URHA Homeownership Program** via email barbararoloff@ctuir.com or Barbara Roloff, Homeownership Program Manager at 276-7

• **United Way of the Columbia-Willamette**

United Way of the Columbia-Willamette, in partnership with the Portland Housing Center, will work with eligible low-income families in the Portland metropolitan area to establish individual development account programs. IDA participants will work toward purchasing their first home. Families who qualify will go through extensive training on home buying and budgeting and financial literacy skills as well as begin saving for their down payment and closing costs.



United Way of the Columbia-Willamette
changing lives

For more information contact: **Felicia Tripp**, Community Relations Manager, Portland Housing Center, 402-282-7744 x108 feliciat@portlandhousingcenter.org or **Michael Schultz**, Vice President, Community Impact & Relations, United Way of the Columbia-Willamette, 503-9358 michaels@unitedway-pdx.org.

IS OREGON ALONE IN OFFERING IDAS?

No, but Oregon is a leader in creating individual development accounts. The Corporation for Enterprise Development (CFED) is a national non-profit organization that has seeded over 2,000 IDA accounts at thirteen sites across the country. CFED has been joined by many of the nation's leading found

including the Joyce, Charles Stewart Mott, Ford, John D. and Catherine T. MacArthur, Fannie Levi-Strauss, Kauffman and Moriah Foundations.

IDAs are also rapidly becoming an effective asset-building component of federal and state ant programs. Congress has recently appropriated \$110 million to fund a demonstration program IDA accounts. The program is entitled The Assets for Independence Act. Also, federal and stat "welfare-to-work" programs have begun to establish IDA accounts to assist moving clients into permanent, unsubsidized jobs.

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